

ORIGINAL

Decision No. 44501

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
LAKEWOOD WATER AND POWER COMPANY	:	Application
for an Order Authorizing Issuance)	No. 31539
and Disposal of Preferred Stock.	:	
-----)	

O P I N I O N

This is an application by Lakewood Water and Power Company for an order authorizing it to issue shares of preferred stock in the aggregate amount of \$950,000 for the purpose of financing the cost of extensions to serve tracts or subdivisions within its service area.

Applicant is a California corporation organized on or about May 10, 1938. It is engaged as a public utility in the production and distribution of water in unincorporated territory in the County of Los Angeles in an area northeast of the City of Long Beach, consisting of the communities commonly known as Lakewood and Mayfair. The following data taken from its annual reports to the Commission indicate the growth of its operations during the last ten years:

	<u>Service Connections</u>	<u>Operating Revenues</u>	<u>Net Income</u>
1940	88	\$ 1,410	\$(1,054)
1941	836	4,721	(160)
1942	1,916	33,336	6,918
1943	3,009	49,461	7,554
1944	4,264	76,523	13,398
1945	4,611	104,077	23,070
1946	5,130	119,973	21,987
1947	5,666	136,230	21,560
1948	5,803	155,254	28,064
1949	6,844	168,838	27,713

As of April 30, 1950, applicant's assets and liabilities are reported as follows:

Assets

Fixed capital		\$ 899,938.02
Construction work in progress		373,615.92
Current assets -		
Cash	\$191,209.62	
Special deposits	77,665.25	
Accounts receivable	7,120.07	
Materials and supplies	198,202.59	
Prepaid expenses	<u>13,396.14</u>	
Total current assets		<u>487,593.67</u>
Total		<u>\$1,761,147.61</u>

Liabilities

Current liabilities -		
Accounts payable	\$204,748.38	
Accrued taxes	<u>10,107.19</u>	
Total current liabilities		\$ 214,855.57
Consumers' advances for construction		354,644.17
Donations in aid of construction		1,256.76
Reserve for depreciation		144,722.58
Capital stock and surplus -		
Common stock	900,000.00	
Surplus	<u>145,668.53</u>	
Total capital stock and surplus		<u>1,045,668.53</u>
Total		<u>\$1,761,147.61</u>

Applicant reports that it is in the midst of a rapid expansion program. Based upon subdivisions which have been recorded and presently are being recorded within its territory, it estimates that before the close of 1951 it will be required to install extensions to serve 9,750 new consumers and it states that it has reason to believe there will be still further subdivisions opened.

It has been applicant's practice to finance the cost of extensions to serve new subdivisions with moneys advanced by subdividers in accordance with its main extension rule, whereby it agrees to refund such advances over a period of ten years at the rate of 35% of the gross revenues collected from the consumers occupying the property to which the extensions have been made. Applicant anticipates advances of \$650,000 to \$700,000 on or before the close of 1950

and of \$700,000 to \$800,000 on or before the close of 1951.

It appears that due to the rapidity with which subdivisions are being occupied, the refund of advances will require substantial sums. In order to relieve itself of the liability for such refunds, applicant proposes to finance the cost of the extensions through the issue of preferred stock. The application shows that substantial parts of the subdivisions under development are being made by Lakewood Park, an affiliated corporation, and that such corporation has agreed to cancel the existing agreements for refunds and to accept preferred stock, on such terms and conditions as the Commission shall approve, in an amount not to exceed \$750,000, in satisfaction of the advances made or to be made by it. Applicant requests authority to issue a total amount of \$950,000 of stock so as to place itself in a position to enter into further agreements with Lakewood Park to refund further advances as they may be made in the future.

Applicant's articles of incorporation presently provide for an authorized issue of 30,000 shares of common stock of the par value of \$100 each. It proposes to execute an amendment thereto so as to provide for an authorized issue of 15,000 preferred shares of the par value of \$100 each, with cumulative dividends at the rate of 5% per annum, payable quarterly, such shares to be redeemable at any time at a premium of \$2.00 a share. It proposes to include a provision to the effect that should it fail to pay, when due, eight quarterly dividend payments, whether consecutive or otherwise, then the holders of the issued and outstanding preferred shares shall be entitled to elect, at the next annual or special shareholders' meeting, the smallest number of directors of applicant which shall constitute a majority of the authorized number of such directors and the common shareholders shall be entitled to elect the remaining directors.

Thereafter, the holders of the preferred shares shall continue to hold such proportion of the voting power until all the unpaid and accrued dividends shall have been paid or set aside for payment. It does not appear that the holders of the preferred shares will have voting rights except under these conditions.

It has not been the Commission's policy to authorize the issue of nonvoting preferred stock. In a long line of decisions the Commission has taken the position that those who purchase shares of stock of a corporation, either preferred or common, should have voting rights commensurate with their investment in the enterprise. In the opinion of the Commission, the purchasers of the shares of preferred stock, from the date they acquire the same, should have voting rights on a parity with the voting rights of the holders of the shares of common stock. The order herein will authorize the issue of shares of preferred stock, provided that the articles of incorporation are amended to provide for such voting privilege. The issue of preferred stock in payment for extensions, in lieu of consumers' advances, should improve applicant's financial position.

O R D E R

The Commission having considered the above entitled matter and being of the opinion that a public hearing thereon is not necessary, that the application should be granted only as herein provided, that the money, property or labor to be procured or paid for through the issue of the stock herein authorized is reasonably required by applicant for the purpose specified herein, and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Lakewood Water and Power Company, after the effective date hereof and on or before June 30, 1951, may issue at par its preferred stock in the aggregate amount of \$950,000, in payment of advances made or to be made to it for the purpose of financing the cost of extensions to serve tracts or subdivisions within its service area, provided that prior to the issue of said shares of preferred stock, or any part thereof, it amend its articles of incorporation so as to give to the holders of shares of its preferred stock the same voting rights as such articles give to the holders of its shares of common stock.

2. Lakewood Water and Power Company shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

3. The authority herein granted will become effective when Lakewood Water and Power Company has filed with the Commission a certified copy of its articles of incorporation, amended as indicated in this application and in this decision.

Dated at San Francisco, California, this 11th day of July, 1950.

B. J. Zimmerman
Justice J. G. Allen
W. A. D. S. S. S. S.
Harold A. S. S.
Samuel S. S.
Commissioners